

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-5-G - ORDER NO. 2009-910
DECEMBER 29, 2009

IN RE:	Annual Review of Purchased Gas Adjustment)	ORDER RULING ON
	and Gas Purchasing Policies of South)	PURCHASED GAS
	Carolina Electric & Gas Company)	ADJUSTMENT AND GAS
)	PURCHASING POLICIES
)	AND ADOPTING
)	SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (“the Commission”) for annual review of the Purchased Gas Adjustment and the Gas Purchasing Policies (“PGA”) of South Carolina Electric & Gas Company (“SCE&G” or “Company”), as required by Order No. 87-898, issued on August 14, 1987. Pursuant to that order, the Commission opened the present docket for the purpose of conducting SCE&G’s 2009 annual PGA review. On February 13, 2009, the Commission scheduled a hearing for this matter for July 9, 2009, and issued a notice of hearing and set return dates for intervention. The Commission subsequently granted a request to conduct the PGA hearing during the fall instead of the summer, and on July 28, 2009, the Commission issued a revised Notice of Hearing, resetting the hearing for November 12, 2009, and establishing new return dates for intervention. Based upon our decision to conduct the PGA during the fall, the period under review in this docket is March 1, 2008 through July 31, 2009 (“Review Period”).

As the natural gas utility under review, SCE&G was automatically made a party to the proceeding. By letter dated July 28, 2009, the Commission instructed the Company to publish the Notice of Hearing in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this proceeding. The Commission further instructed SCE&G to provide notification of the PGA review to each affected customer via U.S. Mail. The Company filed affidavits to confirm its compliance with the Commission's instructions.

The South Carolina Office of Regulatory Staff ("ORS") is a party in this matter pursuant to S.C. Code Ann. § 58-4-10 (Supp. 2008). CMC Steel South Carolina ("CMC Steel") filed a Petition to Intervene, which the Commission granted. No other parties sought to intervene in this proceeding.

By letter dated July 16, 2009, the Commission's Docketing Department issued scheduling directions to all parties establishing the dates for the parties to pre-file testimony and exhibits in this case.

On September 25, 2009, SCE&G pre-filed the direct testimony of witnesses Martin K. Phalen, Rose M. Jackson, Keith C. Coffey, Jr., and Alice A. Fox. On September 30, 2009, the Company pre-filed supplemental direct testimony for Ms. Fox. On October 9, 2009, ORS pre-filed the direct testimony of witnesses Roy H. Barnette and Carey M. Flynt. CMC Steel did not submit pre-filed testimony of any witnesses and no other testimony was pre-filed in this docket.

On November 5, 2009, ORS and SCE&G (collectively the “Settling Parties”) filed a comprehensive Settlement Agreement (“Settlement Agreement”) wherein they stipulated to a resolution of all issues in the proceeding. Although not a signatory, CMC Steel did not oppose the Settlement Agreement.

The Commission conducted a formal hearing in this matter on November 12, 2009, beginning at 10:30 a.m. in the hearing room of the Commission, with the Honorable John E. Howard presiding. K. Chad Burgess, Esquire, and Mitchell Willoughby, Esquire, represented the Company. Shannon Bowyer Hudson, Esquire, represented ORS. CMC Steel did not appear at the hearing.

At the opening of the hearing, Ms. Hudson, counsel for ORS, moved the Settlement Agreement between the Settling Parties into the record along with the pre-filed testimony and exhibits of all ORS witnesses. The Settlement Agreement is identified as Hearing Exhibit 1, and Hearing Exhibit 2 contains the exhibits of ORS Witness Roy H. Barnette.

Mr. Burgess moved into the record the pre-filed testimony and exhibits of all SCE&G witnesses. Hearing Exhibit 3 contains the exhibits of SCE&G witnesses Rose M. Jackson and Alice A. Fox.

In support of its PGA and Gas Purchasing Policies and the Settlement Agreement and as stipulated in the Settlement Agreement, SCE&G presented direct testimony from Martin K. Phalen, Rose Jackson, Alice A. Fox and Keith C. Coffey, Jr. ORS presented direct testimony from Roy H. Barnette and Carey M. Flynt. Consistent with the terms of the Settlement Agreement, the witnesses who pre-filed direct testimony in this

proceeding and orally presented such testimony before the Commission were subject to questioning by the Commissioners, and not by any party.

The Commission has considered the testimony and the exhibits of the witnesses and the other evidence of record in this proceeding including the Settlement Agreement. Based on the evidence of record, the Commission concludes, as the Parties have stipulated, that adoption of the Settlement Agreement is in the best interest of SCE&G's customers, the State of South Carolina, and the financial integrity of the Company.

In making this finding, the Commission specifically finds that during the Review Period, SCE&G (a) properly administered the purchased gas adjustment and correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679; (b) employed prudent gas purchasing practices and policies; (c) administered the Industrial Sales Program-Rider prudently and reasonably and in accordance with the terms of Order No. 2005-619; (d) recovered its gas costs consistent with applicable tariffs and Commission orders, subject to the adjustment described in the testimony of ORS Witness Barnette, and administered the PGA in a prudent and reasonable manner; (e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and as modified in Order No. 2008-546; and (f) was prepared during the Review Period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans.

The Commission further finds that the monthly adjustment procedure and notification procedure for total cost of gas factors as adopted in Commission Docket No.

2006-5-G, Order No. 2006-679 should be maintained subject to the following modifications:

- a. The amount designated as a “material difference” is increased from an amount “equal to or greater than \$0.01 per therm” to an “amount greater than \$0.04 per therm.”
- b. If the calculated difference is greater than \$0.04 per therm, then the Company is required to adjust its rates.
- c. If the calculated difference is less than or equal to \$0.04 per therm, then the Company has the discretion to adjust rates if it believes there would be a reasonable impact to customer bills.
- d. The criteria set forth in (a) and (b) are to be applied by customer class and not by component within customer class.

The Commission also finds that the revised PGA Tariff (Hearing Ex. 3) includes the appropriate revisions incorporating the above changes, which are designed to reduce unnecessary customer confusion and concern caused by frequent changes in gas rates that have resulted in only minor differences to the customers’ bills. The revised PGA Tariff (Hearing Ex. 3) should be implemented by the Company on and after the first billing cycle of January 2010.

The Commission finds that the demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. The Commission

further finds that SCE&G should use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors. The allocation factors contained in Company Witness Fox's direct testimony (Residential 66.11%; Small General Service/Medium General Service 31.78%; Large General Service 2.11%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of January 2010.

The Commission further approves the authority of SCE&G to continue to charge and recover carrying costs, if applicable, on the cumulative total over- or under-collection balances using the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 for the same reasons set forth in that Order.

The Commission also finds that the Company conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679 and Docket No. 2007-5-G, Order No. 2007-595. Moreover, the Company's hedging program should continue through the next review period without any modifications. Further, SCE&G shall continue to report to ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

The Commission further approves the Company's recommendation of converting the PGA administration process from a cycle month sales calculation basis to a calendar month sales calculation basis. The process that SCE&G currently uses to calculate its

monthly PGA over-or under-collection includes the determination of the actual gas cost per therm by dividing calendar month gas costs incurred by the sales that are billed to customers during the month on a cycle-billed basis. Although accepted in the administration of the PGA, this process results in a less precise matching of gas costs with the sales of that gas than would be the case were calendar-based sales used in the computation. As Company Witness Coffey testified, cycle billing creates a situation in which, at the end of any given month, there is gas which has been used by the customer but for which they have not yet been billed. The Company estimates the amount of this unbilled gas cost recovery and recognizes the impact in its financial statements in a separate general ledger account ("Adjustment Account"). As proposed by the Company, and hereby approved by this Commission, the actual credit balance in this adjustment account on November 30, 2009, should be applied to the PGA under- or over-collected calculation beginning with the first billing cycle of January 2010, and this Adjustment Account should be considered in all PGA calculations thereafter. This will have the effect of more precisely matching the monthly revenues from gas sales to the cost of gas sold. The initial credit and future monthly adjustments should be applied to the demand component of the cost of gas factor.

Based on the testimony and exhibits and the Settlement Agreement entered into the record, the Commission finds that the Company's gas purchasing policies and practices during the Review Period were reasonable and prudent. The Commission further finds that all matters contained in the Settlement Agreement are appropriate for

adoption in this proceeding and therefore finds that the Settlement Agreement is in the public interest and is a reasonable resolution of all issues in this case.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. During the Review Period, SCE&G properly administered the purchased gas adjustment. SCE&G also correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679, which factors are hereby approved.

2. SCE&G's gas purchasing policies and practices during the Review Period were within the guidelines established in prior Commission orders and were reasonable and prudent.

3. With the adjustment described by ORS Witness Barnette, SCE&G recovered its gas costs consistent with applicable tariffs and Commission orders during the Review Period.

4. The appropriate cost of gas calculations for the Review Period are as set forth in RHB-1 (Hearing Ex. 2).

5. The demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales.

6. The monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Order No. 2006-679 shall be maintained, subject to the following modifications incorporated in the revised PGA Tariff (Hearing Ex. 3):

- a. The amount designated as a “material difference” is increased from an amount “equal to or greater than \$0.01 per therm” to an “amount greater than \$0.04 per therm.”
- b. If the calculated difference is greater than \$0.04 per therm, then the Company is required to adjust its rates.
- c. If the calculated difference is less than or equal to \$0.04 per therm, then the Company has the discretion to adjust rates if it believes there would be a reasonable impact to customer bills.
- d. The criteria set forth in (a) and (b) are to be applied by customer class and not by component within customer class.

7. The allocation factors contained in SCE&G Witness Fox’s direct testimony are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of January 2010.

8. SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over or under collection balances in the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679.

9. SCE&G has conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No.

2006-679 and modified by Order No. 2008-546. SCE&G shall continue its hedging program under the terms approved by the Commission in Docket No. 2006-5-G, Order No. 2006-679 and modified by Order No. 2008-546, until further order of the Commission.

10. The Company's recommendation to convert the PGA administration process from a cycle-month sales calculation basis to a calendar-month sales calculation basis is reasonable and prudent and is hereby approved. The actual credit balance in the Company's unbilled gas cost adjustment account as of November 30, 2009, shall be applied to the PGA under- or over-collection calculation beginning with the first billing cycle of January 2010, and the Company shall consider this unbilled gas cost adjustment account in all future PGA calculations. The initial credit and future monthly adjustments shall be applied to the demand component of the cost of gas factor.

11. SCE&G shall continue to report to ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

12. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was stipulated to by the Settling Parties and accepted into the record without objection at the hearing, is incorporated into and made a part of this Order. Further, the Settlement Agreement constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

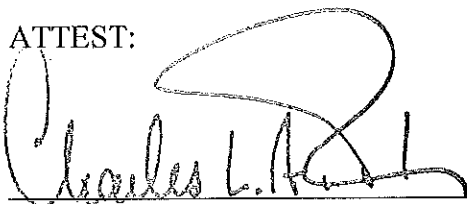
13. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Vice Chairman

ATTEST:



Charles L. A. Terreni, Chief Clerk/Administrator

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-5-G
November 5, 2009

IN RE:)	
)	
Annual Review of Purchased)	
Gas Adjustment and Gas Purchasing)	
Policies of South Carolina Electric &)	SETTLEMENT AGREEMENT
Gas Company)	
)	
)	
)	

This Settlement Agreement ("Settlement Agreement") is made by and between the South Carolina Office of Regulatory Staff ("ORS") and South Carolina Electric & Gas Company ("SCE&G" or "Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, counsel for CMC Steel South Carolina ("CMC Steel"), the only other party to this docket, has stated that CMC Steel does not intend to oppose this Settlement Agreement;

WHEREAS, on July 28, 2009, the Public Service Commission of South Carolina ("Commission") issued the notice of hearing for the 2009 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies ("PGA") of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is March 1, 2008 to July 31, 2009 ("Review Period");

WHEREAS, the review period of SCE&G's PGA typically consists of a twelve-month time period; however, in this PGA the Review Period was extended to a seventeen month time period as a result of the Commission having granted permission to conduct the PGA hearing during the Fall instead of the Summer.

WHEREAS, ORS examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, ORS determined that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment and correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider prudently and reasonably and in accordance with the terms of Order No. 2005-619; d) recovered its gas costs consistent with applicable tariffs and Commission orders, subject to the adjustment described in the ORS direct testimony of Roy H. Barnette at page 6, line 14 through page 7, line 2; e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and as modified in Order No. 2008-546; and f) was prepared during the Review Period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony and exhibits of Martin K. Phalen, Rose M. Jackson, Alice A. Fox (including her supplemental direct testimony), Keith C. Coffer, Jr., Roy H. Barnette, and Carey M. Flynt without cross-examination. Furthermore, each witness will take the stand to present his or her

testimony and, if necessary, make non-material changes to their testimony comparable to those that would be presented via an errata sheet or through a witness noting a correction. With respect to this Settlement Agreement, Company Witness Jackson is the witness designated to be primarily responsible for providing support for the Settlement Agreement at the hearing scheduled in this case. The Parties agree that pre-filed settlement testimony is not needed in this case; however, Witness Jackson will supplement the presentation of her testimony at the hearing to include testimony supportive of this Settlement Agreement.

2) For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period March 1, 2008 through July 31, 2009 as set forth in ORS Audit Exhibit RHB-1 attached to the testimony of Roy H. Barnette.

3) The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679, subject to the following modifications:

- a) The Parties agree that the amount designated as a "material difference" should be increased from an amount "equal to or greater than \$0.01 per therm" to an "amount greater than \$.04 per therm."
- b) The Parties agree that if the increase calculated is less than or equal to \$.04 per therm, then the Company should have the discretion to change rates if it believes there would be a reasonable impact to customer bills.
- c) The Parties agree that the criteria set forth in paragraph 3(a) and (b) above be applied by customer class and not by component within customer class.
- d) The Parties agree that the PGA Tariff included as Exhibit No. ____ (AAF-3) to Company Witness Fox's Supplemental Direct Testimony includes the appropriate revisions incorporating the above changes. A "clean" version of Exhibit No. ____ (AAF-3) is

attached hereto and incorporated herein by this reference as Settlement Agreement Exhibit A.

4) The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on page 4 in Ms. Fox's pre-filed direct testimony (Residential 66.11%; Small General Service/Medium General Service 31.78%; Large General Service 2.11%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of January 2010.

5) As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

6) ORS agrees to SCE&G's recommendation of converting the PGA process from a cycle-month sales calculation basis to a calendar-month sales calculation basis to more precisely match the monthly revenues from gas sales to the cost of gas sold. A similar request from SCE&G was approved in the Company's Annual Review of Base Rates for Fuel Costs in Docket No. 2009-2-E. This change creates a credit against the PGA over-collection as a result of converting the PGA administration process from a cycle-month sales calculation basis to a calendar-month sales calculation. ORS agrees to SCE&G's proposal that the credit balance as of November 30, 2009 in the unbilled gas cost adjustment account be applied to the PGA under- or over-collection calculation beginning with the first billing cycle of January 2010, and that this

adjustment account will be considered in all PGA calculations thereafter. Further, the initial credit and future monthly adjustments will be applied to the demand component of the cost of gas factor.

7) The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G were conducted and administered during the Review Period consistent with Order No. 2006-679 and as modified by Order No. 2008-546. No modifications are proposed to the hedging program and methodologies by the Parties in this proceeding.

8) SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties further agree that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

9) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

10) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

11) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

12) This Settlement Agreement shall be interpreted according to South Carolina law.

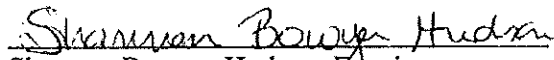
13) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement

and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[SIGNATURES ON THE FOLLOWING PAGES]

WE AGREE:

Representing the South Carolina Office of Regulatory Staff


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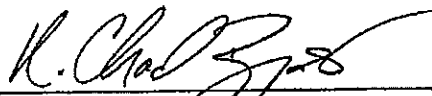
Docket No. 2009-5-G

Order No. 2009-910

December 29, 2009

WE AGREE:

Representing South Carolina Electric & Gas Company



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SOUTH CAROLINA ELECTRIC AND GAS COMPANY PURCHASED GAS ADJUSTMENT FIRM GAS ONLY

This adjustment is applicable to and is part of the Company's firm gas rate schedules. The cost will be calculated to the nearest one-thousandths of a cent, as determined by the following formula, and will be included in the base rates to the extent approved by the Public Service Commission. All costs and factors will be recalculated monthly for a forward looking 12-month period. Adjustments in gas cost factors will be made for all factors in any month in which the recalculation indicates that any factor requires an adjustment of more than \$0.04 per therm. If the recalculation indicates the adjustment is less than or equal to \$0.04 per therm, then the Company may nevertheless adjust the rate if, in its sole discretion, it determines that a rate adjustment would reasonably impact customers' bills. The recalculation shall be made based on information current as of a mid-month date selected by the Company which allows for revised factors to be filed and acted on by the Commission before the first billing cycle of the month in which they are to be effective. All components of the recalculation (commodity costs, demand charges, firm sales, industrial revenue credits, capacity release credits, over or under collections, carrying costs, etc.) shall reflect current forecasts and balances as of the date of the recalculation. Differences between firm cost of gas revenues actually billed and firm cost of gas expenses actually incurred for each month, as defined below, will be calculated monthly, for both Demand Charges and Firm Commodity Benchmark charges, and accumulated. The accumulated amounts will be applied to subsequent cost of gas factor calculations as detailed herein with monthly carrying costs calculated at the rate of one-twelfth of the annual applicable interest rate. This annual rate is defined as the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points) with this total carrying costs annual rate not exceed 6%. The rate will be applied to the cumulative balance of over or under recovery as of the close of the prior month for each customer class for both demand and commodity with no carrying cost applied to over or under-collection balances equal to or exceeding \$20 million dollars. The resulting interest adjustment will be applied to the demand and commodity cost of gas recovery balances for each customer class. The Demand Charges and Firm Commodity Benchmark charges shall be calculated as set forth below.

A. Demand Charges:

$$\text{Demand Charges per Therm by Class} = \frac{[a-(b+c)] \times \text{Rate Class Percentages}}{\text{Firm Sales Therms by Rate Class}}$$

- (a) Capacity charges and reservation fees for transportation, storage and LNG.
- (b) Released capacity at 75% of the net compensation received from secondary market transactions. (See "Note-1" below)
- (c) Margin Revenue from interruptible rates above \$.02081 per therm. Margin Revenue is the total amount received for such sale less the commodity cost of gas determined in B below.

Effective On and After The First Billing Cycle of January 2010

Settlement Agreement Exhibit A

All calculations of Demand Charges by customer class shall be done monthly. The full amount of any Margin Revenue as stated in C above, shall be credited to the Demand Cost. Additionally, SCE&G will revise the rate class percentages to reflect the current weighting of 50% of annual peak day forecast and 50% of forecast annual sales in each annual Purchased Gas Adjustment filing.

NOTE-1: "Released Capacity" shall include all transactions which involve the use of gas transportation capacity rights, storage rights or similar off-system rights or assets owned by SCE&G, but only if the cost of those rights or assets is borne by firm gas customers in South Carolina. "Net value received" shall mean the gross compensation received from the "released capacity" transactions, less all transportation charges, taxes or other governmental charges, brokerage fees or commissions, or other costs or charges related to the transaction, including all costs incurred in purchasing natural gas supplies that form part of the transaction.

B. Firm Commodity Benchmark:

Where: Firm Gas Cost per Therm = $\frac{(p-d)}{s}$

- (p) Total variable cost of natural gas (processed or unprocessed), vaporized liquid natural gas, synthetic gas, propane-air mixture, landfill gas, or other source of methane gas or any mixture of these gases entering the Company's system in dollars including any additions or subtractions from Price Risk Adjustment.
- (d) The cost of gas attributable to all sales made by the Company to customers under an interruptible rate or contract or any Special Market Priced Customers, such costs to be calculated by dividing the total price paid for commodity gas for the month by the volumes of gas purchased for the month (adjusted for shrinkage) with the resulting unit price then multiplied by interruptible sales therms for the month. (See "Note-2" Below)
- (s) Total firm therm sales of gas. Total sales being defined as those sales excluding gas sold under D above recorded on the Company's books in Accounts 480 through 483 per The Uniform System of Accounts for Class A and B Gas Utilities of the National Association of Regulatory Utility Commissioners (NARUC).

NOTE-2: Special Market Priced Gas includes, without limitation, market priced gas sold to Compressed Natural Gas (CNG) customers under SCE&G's Developmental Rate for CNG and emergency gas customers sold under provisions providing for Emergency Gas sales. The appropriate revenue related tax factor is to be included in the calculation of Demand Charges and the Firm Commodity Benchmark.

C. Alternative Commodity Benchmark Calculation Related to Interruptible Sales

Interruptible sales are priced to reflect the cost of gas supplies available at the time the sales are transacted. The Firm Commodity Benchmark is calculated as a system-wide average at month's end. In some cases, the market price of gas supplies may change within a month such that the Firm Commodity Benchmark plus \$.02081 per therm is higher than the price quoted for interruptible sales. In such cases, SCE&G may calculate an Alternative Commodity Benchmark for those interruptible sales whose prices fall below the Firm Commodity Benchmark. SCE&G shall then use that Alternative Commodity Benchmark plus \$.02081 per therm in calculating the Margin Revenue from those sales.

Effective On and After The First Billing Cycle of January 2010

Settlement Agreement Exhibit A

The Alternative Commodity Benchmark --The Alternative Commodity Benchmark shall be calculated using the following formula:

$$\text{Cost of Gas per Therm} = \frac{p}{d}$$

- (p) Total variable cost of gas (of whatever type) entering the Company's system that was purchased, nominated, injected or otherwise obtained to support the interruptible sales whose prices are lower than the Firm Commodity Benchmark.
- (d) The interruptible sales, in therms, whose prices are lower than the Firm Commodity Benchmark.

The costs and quantities of gas used in such calculation shall be excluded from the calculation of the Firm Commodity Benchmark under Section B, above.

Margin Revenue from Interruptible Sales: In those months in which SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall use that Alternative Commodity Benchmark to compute Margin Revenue from interruptible sales and shall include the Margin Revenue so calculated in factor (c) of the Demand Cost calculation under Section A, above.

Whenever SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall provide written notice thereof to the Commission and the Office of Regulatory Staff, within 30 days of adopting the resulting adjustment to prices and volumes.

Effective On and After The First Billing Cycle of January 2010